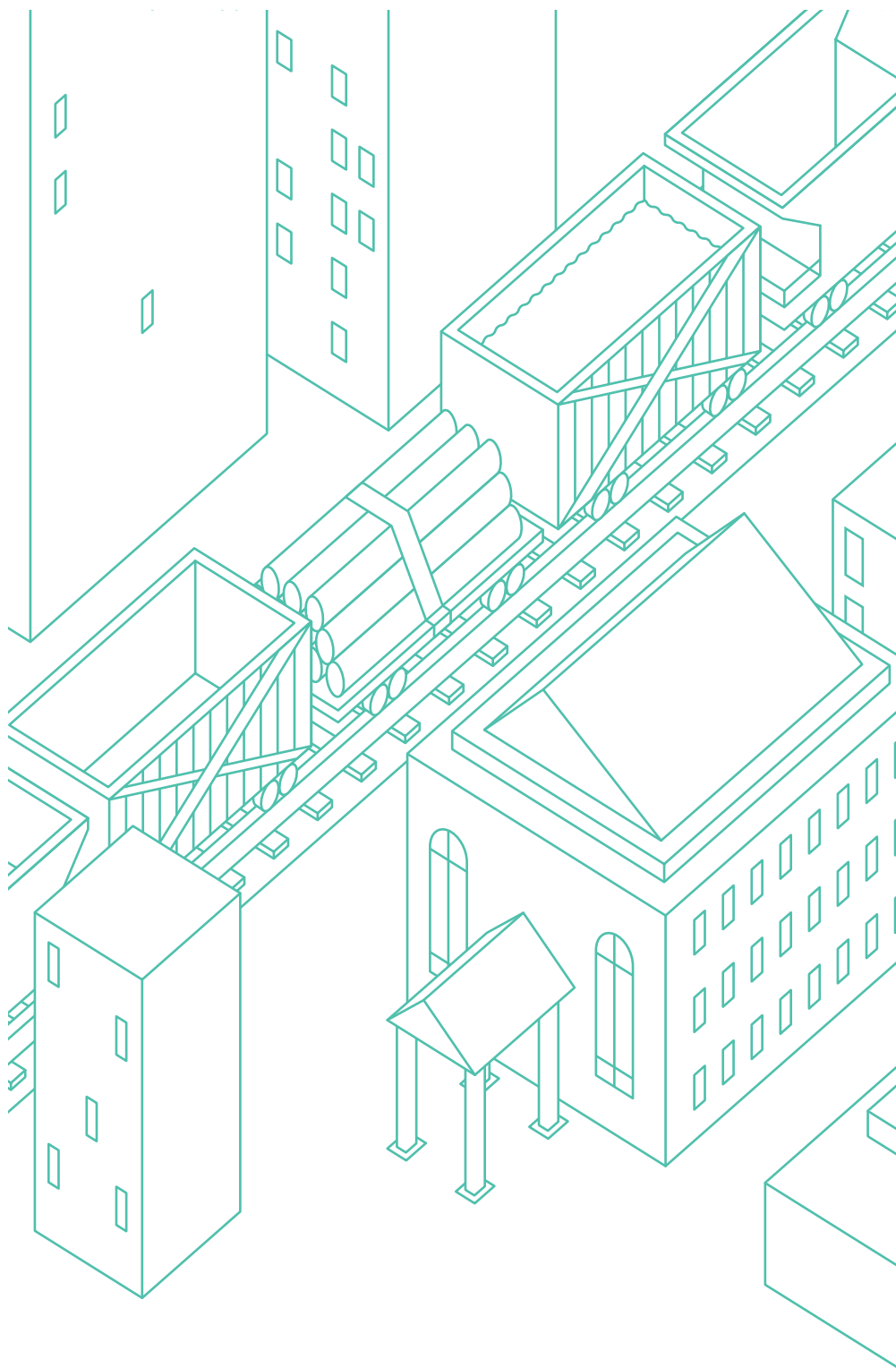


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CFO LETTER

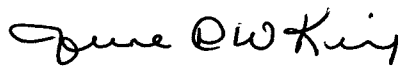
OCTOBER 26, 2012

I am pleased to present the National Mediation Board's (NMB) FY 2012 Consolidated Financial statements. This report is prepared in accordance with the requirements of the Office of Management and Budget Circular A-136, Financial Reporting Requirements.

This year, the NMB received its 14th consecutive unqualified audit opinion. Also of notable mention is the multi-departmental effort that contributed to the reduction of a material weakness down to a significant deficiency.

The revised administrative processes within the Office of Administration and the Office of Arbitration Services improved the recording of obligations related to arbitration services. The new system was fully implemented in August, 2012, and showed that the NMB was on the right financial path.

The NMB continues to strive to improve its financial stewardship by promoting sound business practices and improved accountability.



JUNE D.W. KING

Director, Office of Administration and Chief Financial Officer

AUDIT REPORTS

SEPTEMBER 30, 2012

ALLMOND & COMPANY, LLC
Certified Public Accountants
8181 Professional Place, Suite 250
Landover, Maryland 20785
(301) 918-8200

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INDEPENDENT AUDITOR'S REPORT

BOARD MEMBERS

National Mediation Board

We audited the accompanying balance sheet of the National Mediation Board (NMB) as of September 30, 2012, and the related statements of net cost, changes in net position, and statement of budgetary resources for the year then ended (the principal financial statements). These financial statements are the responsibility of NMB management and were prepared by NMB in accordance with Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the principal financial statements referred to above present fairly, in all material respects, the financial position of NMB as of September 30, 2012, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States.

The information in the *Management and Discussion Analysis* section of this report is not a required part of the principal financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However we did not audit this information and, accordingly, we express no opinion on it.

We issued a draft of this report to NMB management and requested its comments. Management replied by indicating its general agreement with the audit results. In accordance with *Government Auditing Standards*, we issued separate reports dated October 26, 2012 on NMB's internal control and compliance with laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of the audit, those reports should be read together with this report.



ALLMOND & COMPANY, LLC
October 26, 2012
Landover, Maryland

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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BOARD MEMBERS

National Mediation Board

We audited the accompanying balance sheet of the National Mediation Board (NMB) as of September 30, 2012, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended (the principal financial statements) and issued our report thereon, dated October 26, 2012. We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered NMB's internal control over financial reporting by obtaining an understanding of NMB's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the principal financial statements. We limited internal control testing to that necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as the internal control relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not express an opinion on internal control.

With respect to internal control related to performance measures reported in NMB management's overview, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin 07-04. We also assessed control risk relevant to NMB intra-agency transactions and balances. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not express an opinion on such control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, control deficiencies exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects the NMB's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the NMB's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

In our fiscal year 2012 audit, we noted, one matter described in Exhibit I that we considered to be a significant deficiency. This control weakness was considered to be a material in the FY 2011 audit.

We issued a draft of this report to NMB management and requested its comments. Management replied by indicating its general agreement with the audit results. This report is intended solely for the information of NMB management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.



ALLMOND & COMPANY, LLC
October 26, 2012
Landover, Maryland

EXHIBIT I

SIGNIFICANT DEFICIENCY

Improvements Were Needed in Recording Obligations Related to Arbitration Services

National Mediation Board (NMB) experienced significant issues related to recording obligations for arbitration services in the general ledger when they are incurred (once an arbitrator is assigned to a case) during both fiscal year (FY) 2010 and 2011. During FY 2012, NMB made substantial improvements to their procedures for recording obligations related to arbitration services as a result of the implementation of the Arbitration Workspace (AWS). These improvements included (1) obligating the full cost of the obligation when an arbitrator is assigned to a case; (2) tracking of all cost associated with an arbitrator rendering an award on a case; and (3) documenting the approval to assign an arbitrator to hear a case or group of cases.

Although improvements have been made by NMB to arbitration procedures, we continued to identify weaknesses in recording obligations related to arbitration services in the general ledger. Specifically, the following weaknesses were identified during our interim and year-end procedures over obligations related arbitration services (1) Office of Administration was not always timely notified when an arbitrator has been assigned to hear a case (obligation was incurred); (2) Arbitration obligations recorded in AWS were not always in agreement with obligations recorded in the general ledger related to arbitration services.; and (3) the general ledger was not always timely updated when more information about the status of a case became available in AWS.

Government Accountability Office (GAO) Standards on Internal Control in the Federal Government states “Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

NMB had not fully implemented internal control procedures that would allow the arbitration obligations recorded in AWS to agree with the obligations recorded in the general ledger related to arbitration services until the last two months of FY 2012. As a result, Accounts Payable was overstated by \$156,582 at September 30, 2012.

We recommend NMB management do the following to address the issues noted above:

- 01 Office of Administration and Arbitration reconcile the status of obligations established in the general ledger to the amount of cases assigned to an arbitrator per the Arbitration Workspace.
- 02 Monitoring activities be performed monthly by Office of Administration and Office of Arbitration over the funds that remain available for obligation related to arbitration services.
- 03 Continue to develop a mechanism to estimate and update obligations related to arbitration in the general ledger as more information about the status of the case becomes available.

MANAGEMENT RESPONSE

NMB Management has reviewed the recommendations identified above and notes that with the full implementation of the arbitration workspace with the operations of the Office of Administration in August 2012, these recommendations have been addressed.

The Office of Administration and Office of Arbitration Service now reconciles the status of the arbitration workspace and the obligated balance in the accounting system on a monthly basis. If any adjustments are necessary, they are made at that time. This process was followed during the last two months of the fiscal year. This shows that the NMB is on the right track for fiscal accountability over Section III funding.

BOARD MEMBERS

National Mediation Board

We audited the accompanying balance sheet of the National Mediation Board (NMB) as of September 30, 2012, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended (the principal financial statements) and issued our report thereon, dated October 26, 2012.

We conducted our audit in accordance with Government Auditing Standards, auditing standards generally accepted in the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

NMB management is responsible for complying with laws and regulations. As part of obtaining reasonable assurance about whether NMB's financial statements are free of material misstatement, we performed tests of its compliance with:

- Certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
- Certain other laws and regulations specified in OMB Bulletin No. 07-04.

We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to NMB. Our audit was not designed to provide an opinion on compliance with provisions of laws and regulations. Accordingly, we do not express such an opinion.

Our tests disclosed no instances of material noncompliance required to be reported under Government Auditing Standards. Additionally, we did not note any instances of immaterial noncompliance.

We issued a draft of this report to NMB management and requested its comments. Management replied by indicating its general agreement with the audit results. This report is intended solely for the information of NMB management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.



ALLMOND & COMPANY, LLC

October 26, 2012
Landover, Maryland

NATIONAL MEDIATION BOARD

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FINANCIAL STATEMENTS

NATIONAL MEDIATION BOARD BALANCE SHEET

As of September 30, 2011
and September 30, 2012

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ASSETS	2012	2011
ENTITY ASSETS:		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 2)	\$ 5,258,491	\$ 4,695,777
Real Estate, Property and Equipment (Note 3)	124,420	174,567
TOTAL ASSETS	\$ 5,382,911	\$ 4,870,344
LIABILITIES AND NET POSITION	2012	2011
LIABILITIES:		
INTRAGOVERNMENTAL LIABILITIES		
Accounts Payable	188,738	240,907
GOVERNMENTAL LIABILITIES:		
Accounts Payable	278,450	487,457
Accrued Payroll and Benefits	128,000	130,139
Unfunded Annual Leave	0	0
Unfunded Arbitration Liability (Note 8)	0	542,520
Contingent Liabilities (Note 9)	75,000	0
Capital Lease Liability (Note 10)	90,172	120,481
TOTAL LIABILITIES	1,182,575	1,934,840
NET POSITION:		
Unexpended Appropriated Capital	4,573,132	3,716,794
Cumulative Results of Operations	(372,796)	(781,290)
TOTAL NET POSITION	4,200,336	2,935,504
TOTAL LIABILITIES AND NET POSITION	\$ 5,382,911	\$ 4,870,344

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NATIONAL MEDIATION BOARD STATEMENT OF NET COST

For the Year Ended September 30,
2012 and September 30, 2011

COSTS	2012	2011
MEDIATION/ADR		
Intragovernmental	\$ 2,319,292	\$ 2,320,740
With the Public	4,123,670	4,410,119
TOTAL	6,442,962	6,730,859
REPRESENTATION		
Intragovernmental	\$ 1,011,723	\$ 1,040,332
With the Public	1,772,832	1,929,427
TOTAL	2,784,555	2,969,759
ARBITRATION		
Intragovernmental	\$ 682,998	\$ 680,217
With the Public	2,334,946	2,624,433
TOTAL	3,017,944	3,304,650
PRESIDENTIAL EMERGENCY BOARD		
Intragovernmental	\$ 3,712	\$ 0
With the Public	149,266	183,755
TOTAL	152,978	183,755
Less Revenue from Services	0	0
NET PROGRAM COSTS	\$ 12,398,439	\$ 13,189,023
NET COST OF OPERATIONS	\$ 12,398,439	\$ 13,189,023

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NATIONAL MEDIATION BOARD STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30,
2012 and September 30, 2011

	2012	2011
UNEXPENDED APPROPRIATIONS:		
Beginning Balance – October 1, 2010	\$ 3,716,794	\$ 3,259,683
Prior Period Adjustments	0	(28,802)
Beginning Balance Adjusted	\$ 3,716,794	\$ 3,230,881
Appropriations Received	13,436,000	13,463,000
Other Adjustments	(238,677)	(358,876)
Appropriations Used	(12,340,985)	(12,618,211)
TOTAL UNEXPENDED APPROPRIATIONS	\$ 4,573,132	\$ 3,716,794
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance – October 1, 2010	\$ (781,290)	\$ (719,819)
Prior Period Adjustments – All Other Funds	0	28,803
Beginning Balance as Adjusted – All Other Funds	\$ (781,290)	\$ (691,016)
Appropriations Used – All Other Funds	12,340,985	12,618,211
Imputed Financing – All Other Funds (Note 5)	465,948	480,538
Net Cost of Operations – All Other Funds	(12,398,439)	(13,189,023)
TOTAL CUMULATIVE RESULT OF OPERATIONS	\$ (372,796)	\$ (781,290)
NET POSITION	\$ 4,200,336	\$ 2,935,504

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NATIONAL MEDIATION BOARD STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30,
2012 and September 30, 2011

	2012	2011
BUDGETARY RESOURCES:		
Budget Authority	\$ 13,436,000	\$ 13,463,000
Unobligated Balance – Beginning Period	2,600,906	2,324,226
Spending Authority from Offsetting Collections	0	0
Recoveries of Prior Year Obligations	0	0
Adjustments	(238,677)	(358,876)
TOTAL BUDGETARY RESOURCES	\$ 15,798,229	\$ 15,428,350
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred (Note 10)	\$ 12,670,526	\$ 12,827,444
Unobligated Balance – Available	395,763	467,152
Unobligated Balance – Not Available	2,731,640	2,133,754
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 15,798,229	\$ 15,428,350
OUTLAYS:		
Obligations Incurred	\$ 12,670,526	\$ 12,827,568
Less: Spending authority from offsetting collections and adjustments	(0)	(0)
Recoveries of Prior Year Obligations	(0)	(0)
Obligated Balance, Net – Beginning Period	2,094,871	1,816,083
Obligated Balance, Transferred, Net		
Less: Obligated Balance, Net – End of Period	(2,130,787)	(2,094,871)
NET OUTLAYS	\$ 12,634,610	\$ 12,548,656

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF REPORTING ENTITY

The National Mediation Board (NMB), established by the 1934 amendments to the Railway Labor Act of 1926, is an independent U.S. federal government agency that performs a central role in facilitating harmonious labor-management relations within two of the nation's key transportation modes—the railroads and airlines. Recognizing the importance of these transportation industries to the public shippers, and consumers, as well as to the economy and security of the country, the RLA established NMB to promote three statutory goals:

- 01 The prompt and orderly resolution of disputes arising out of the negotiation of new or revised collective bargaining agreements;
- 02 The effectuation of employee rights of self-organization where a representation dispute exists; and
- 03 The prompt and orderly resolution of disputes over the interpretation or application of existing agreements.

These financial statements include all activity related to NMB's appropriation (No. 95122400), the principal funding for all NMB activities.

NMB prepares its financial statements to be in conformity with generally accepted accounting principles.

NMB does not hold any non-entity assets and has no earmarked funds as described by the Government Accountability Office (GAO).

BUDGETS AND BUDGETARY ACCOUNTING

Congress annually adopts a budget appropriation that provides NMB with authority to use funds from Treasury to meet operating and program expense requirements. NMB has a single year budgetary authority and all unobligated amounts at year-end are expired. At the end of the fifth year all amounts not expended are canceled. All revenue received from other sources must be returned to the U.S. Treasury.

BASIS OF ACCOUNTING

NMB's financial statements are prepared under the accrual method of accounting. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the period(s) when those transactions, events, and circumstances occur, regardless of when cash is received or paid. NMB also uses budgetary accounting to facilitate compliance with legal constraints and to keep track of its budget authority at the various stages of execution, including allotment, obligation, and eventual outlay.

The Balance Sheet, Statement of Net Cost, Statement of Net Position, and Statement of Budgetary Resources have been prepared in accordance with generally accepted accounting principles.

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REVENUE AND OTHER FINANCING SOURCES

NMB receives funds to support its programs through annual appropriations. These may be used to pay program and administrative expenses (primarily salaries and benefits, occupancy, travel, and contractual services costs).

Appropriations are recognized as financing sources at the time they are used to pay program or administrative expenses. Appropriations used to acquire property and equipment is recognized as financing sources when the assets are purchased.

FUND BALANCES WITH THE US DEPARTMENT OF THE TREASURY

NMB does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by Treasury. The balance of funds with Treasury represents appropriated fund balances that are available to pay current liabilities and finance authorized purchase obligations relative to goods or services that have not been received.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation. NMB capitalizes property and equipment purchases with a cost greater than \$5,000, and a total useful life exceeding one year. Depreciation is calculated on a straight-line basis based on an estimated useful life of 5 years for all assets. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

When NMB enters into a lease agreement, as lessee, if the title of the asset transfers to NMB at the end of the lease or any of the other three capitalization criteria pursuant to SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, are met, NMB capitalizes the lease at the present value of minimum lease payment and amortizes the cost over the economic useful life of the asset.

LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by NMB as the result of a transaction or event that has already occurred. However, no liability can be paid by NMB absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as Liabilities Not Covered by Budgetary Resources and there is no certainty that the appropriations will be enacted. Also, liabilities of NMB arising from other than contracts can be abrogated by the government, acting in its sovereign capacity.

Regarding NMB's building lease, the General Services Administration (GSA) entered into a lease agreement for NMB's rental of building space. NMB pays GSA a standard level users charge for the annual rental. The standard level users charge approximates the commercial rental rates for similar properties.

ACCRUED LEAVE

Accrued payroll and benefits reflect salaries and benefits that have been earned, but not disbursed as of September 30, 2012.

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UNFUNDED ANNUAL LEAVE

Annual leave is accrued as a liability as it is earned. The accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates. To the extent that the current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations. Sick leave and other types of non-vested leave are charged to expense as the leave is used.

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

These liabilities are not funded by direct budgetary authority. Liabilities not covered by budgetary resources result from the receipt of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods for which appropriations, revenues, or other financing sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity. Liabilities not covered by budgetary resources as of September 30, 2012 and September 30, 2011 were:

	FY 2012	FY 2011
Unfunded Annual Leave	\$ 422,215	\$ 413,336
Unfunded Arbitrators Liabilities	\$ 0	\$ 542,520

NET POSITION

Appropriated fund balance consists of the following components:

Unexpended appropriated capital: represents amounts of unavailable and available budget authority that are unobligated, or obligated but not expended. The obligated amount represents amounts for goods and/or services outstanding for which funds have been obligated, but the liabilities have not been accrued.

	FY 2012	FY 2011
Unobligated, available	\$ 0	\$ 0
Unobligated, unavailable	3,127,704	2,600,906
Undelivered Orders	1,445,428	1,115,888
UNEXPENDED APPROPRIATED CAPITAL	\$ 4,573,132	\$ 3,716,794

Future funding requirements: represents the liabilities not covered by available budgetary resources.

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RETIREMENT PLAN

NMB's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7 percent of their gross pay to the plan, and NMB contributes 7 percent.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and are eligible for Social Security benefits. Employees hired prior to January 1, 1984, could elect either to transfer to the FERS plan and become eligible for Social Security benefits or remain in CSRS. A primary feature of FERS is that it offers a savings plan in which NMB automatically contributes 1 percent of employees' pay and matches any employee contribution up to an additional 4 percent of pay.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is therefore not disclosed by NMB. The reporting of these amounts is the responsibility of the Office of Personnel Management.

During fiscal years 2012 and 2011, NMB paid \$73,192 and \$70,803 for CSRS, and \$490,177 and \$464,031 for FERS, respectively for its employees' coverage.

TAX STATUS

NMB, as an independent Board of the executive branch, a federal agency, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income tax is recorded.

NOTE 2: FUND BALANCES WITH TREASURY

Fund balances with Treasury were entirely entity assets from appropriations and consisted of the following:

	FY 2012	FY 2011
Obligated	\$ 2,138,090	\$ 2,094,871
Unobligated Available	0	0
Unobligated Restricted	3,120,401	2,600,906
FUND BALANCE WITH TREASURY	\$ 5,258,491	\$ 4,695,777

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NOTE 3: PROPERTY AND EQUIPMENT, NET

NMB uses straight-line depreciation with a useful life of 5 years and a capitalization threshold of \$5,000. Property and equipment, and related accumulated depreciation, at September 30, 2012 and September 30, 2011 consisted of:

	FY 2012	FY 2011
Equipment-Capitalized	\$ 93,553	\$ 93,553
Capital Lease	157,180	182,353
	250,734	275,906
Less: Accumulated Depreciation	(126,314)	(101,339)
TOTAL PROPERTY AND EQUIPMENT, NET	\$ 124,420	\$ 174,567

NOTE 4: PROGRAM / OPERATING EXPENSES

Although OMB Circular A-136 only requires that operating expenses be broken out by program and object classification if the principal statements may be misleading for FY 2012, NMB has chosen to display its operating expenses by object classification for FY 2012 and FY 2011 for a more clear presentation.

	FY 2012	FY 2011
Personnel Compensation	\$ 7,241,947	\$ 7,188,686
Personnel Benefits	1,484,174	1,496,094
Travel of Persons	601,263	627,539
Transportation of Things	2,484	1,422
Rent/Comm/Utilities	1,526,422	1,530,393
Printing	6,344	4,376
Other Services	1,160,603	1,457,584
Supplies	173,778	161,180
Equipment 1	34,849	118,885
TOTAL	\$ 12,331,864	\$ 12,586,159

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NOTE 5: PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST RETIREMENT BENEFITS

The NMB reports the full cost of employee pensions, other retirement benefits, and other post employment benefits in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. Although the NMB funds a portion of the benefits under FERS and CSRS relating to its employees and withholds the necessary payroll deductions, a portion of the Normal Pension Cost remains unpaid. SFFAS No. 5 requires the recognition of this remaining cost as imputed financing.

Pension and other retirement benefit expenses are calculated using cost factors determined by actuaries at the Office of Personnel Management. These cost factors are calculated based on economic and demographic assumptions. The cost factor is multiplied by the basic pay in order to obtain the "Normal Cost" for the accounting period. This Normal Cost is the present value of the projected benefits of each employee allocated on a level basis over the service of the employee between entry age and assumed exit age.

The imputed financing amount represents the difference between the employer's total pension expense and the employer's contribution. For the period ending September 30, 2012 the Normal Cost, employer's total pension expense, employer's contribution and imputed financing amounts were as follows:

Employee Type	Normal Cost	Employer's Total Pension Expense	Employer's Contribution	Employer's Imputed Financing Expense
CSRS	\$ 310,116	\$ 72,846	\$ 72,846	\$ 164,424
FERS	570,289	33,302	495,360	41,627
TOTAL	\$ 880,405	\$ 106,148	\$ 568,207	\$ 206,051
Health Insurance				258,857
Life Insurance				1,040
TOTAL				259,897
GRAND TOTAL IMPUTED FINANCING				\$ 465,948

SEPTEMBER 30, 2011

Employee Type	Normal Cost	Employer's Total Pension Expense	Employer's Contribution	Employer's Imputed Financing Expense
CSRS	\$ 312,344	\$ 72,638	\$ 72,638	\$ 167,068
FERS	597,109	34,615	506,245	56,249
TOTAL	\$ 909,453	\$ 107,253	\$ 578,883	\$ 223,317
Health Insurance				256,148
Life Insurance				1,073
TOTAL				257,221
GRAND TOTAL IMPUTED FINANCING				\$ 480,538

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NOTE 6: OBLIGATED BALANCES, NET, END OF PERIOD AS OF SEPTEMBER 30, 2012

The components of the obligated balance as of September 30, 2012 and September 30, 2011 are:

	FY 2012	FY 2011
Undelivered Orders	\$ 1,445,428	\$ 1,115,888
Accounts Payable	685,359	978,983
TOTAL OBLIGATED BALANCE	\$ 2,130,787	\$ 2,094,871

NOTE 7: RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

For the Year Ended September 30, 2012 and September 30, 2011

	FY 2012	FY 2011
Resources Used to Finance Activities		
Obligations Incurred	\$ 12,670,526	\$ 12,827,444
Less: Spending authority for offsetting collections and Recoveries of Prior Year Obligations	(0)	(0)
Imputed Financing (Note 5)	465,948	480,538
TOTAL BUDGETARY RESOURCES TO FINANCE ACTIVITIES	\$13,136,474	\$13,307,982
Less: Resources Not Used to Finance Net Cost of Operations		
Change in Amount of Goods, Services and Benefits ordered but not yet Received or Provided	\$ 329,540	\$ 180,430
Costs Capitalized on the Balance Sheet	0	72,353
Other	0	6,645
TOTAL RESOURCES NOT USED TO FINANCE NET COST OF OPERATIONS	\$329,540	\$259,428
TOTAL RESOURCES USED TO FINANCE NET COST OF OPERATIONS	\$12,806,934	\$13,048,554
Costs that do not require Resources:		
Depreciation and Amortization	\$ 50,146	\$ 55,181
Change in Future Funded Liabilities	(458,641)	56,485
Revaluation of Assets and Liabilities	0	28,803
TOTAL COSTS THAT DO NOT REQUIRE RESOURCES	(408,495)	140,469
Net Cost of Operations	\$ 12,398,439	\$ 13,189,023

NOTE 8: CONTINGENT ARBITRATOR LIABILITIES

The NMB revised its policy, so that when cases are assigned to an Arbitrator the full cost of the case is obligated. Currently, 1,104 cases are not assigned to any arbitrators. If these cases were assigned, we estimate it would cost \$695,520 for arbitrators to hear and render an award on these cases.

NOTE 9: CONTINGENT LIABILITIES

NMB's dispute with a vendor, subject them to potential liabilities of \$75,000 where an adverse outcome is probable.

NOTE 10: ACCOUNTING FOR LEASES

OPERATING LEASES: NMB occupies office space under a lease agreement with the General Services Administration (GSA) that is accounting for as an operating lease. The lease term was for a period of eleven years began on November 1, 2011 and expires on October 31, 2016. NMB pays GSA a standard level users charge for the annual rental adjusted annually for operating cost escalations in accordance with the provisions in the Federal Management Regulations. The operating rent and taxes was to be inflated by 1.14% from 2012 to 2013 to estimate the escalation that the market will yield.

SCHEDULE OF FUTURE MINIMUM LEASE PAYMENTS

2013	\$ 1,386,391
2014	\$ 1,402,196
2015	\$ 1,418,181
2016	\$ 1,434,348

TOTAL FUTURE MINIMUM LEASE PAYMENTS **\$ 5,641,116**

CAPITAL LEASES

NMB entered into a capital lease on December 6, 2006 to lease a Xerox machine over a five-year period. The lease provide for ownership to transfer to NMB at the end of the lease period. The present value of the minimum lease payments of \$6,555.84 annually at an interest rate of 9.5 percent was determined to be \$25,215. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2012 and 2011 was \$0 and \$500, respectively.

NMB entered into a capital lease on October 6, 2008 to lease a Xerox machine over a five-year period. The lease provide for ownership to transfer to NMB at the end of the lease period. The present value of the minimum lease payments of \$1,671 annually at an interest rate of 9.5 percent was determined to be \$6,415.23 for the second machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2012 and 2011 was \$1,642 and 2,919, respectively.

NMB entered into a capital lease on October 6, 2008 to lease a Xerox machine over a five-year period. The lease provide for ownership to transfer to NMB at the end of the lease period. The present value of the minimum lease payments of \$7,033 annually at an interest rate of 9.5 percent was determined to be \$27,006 for the last machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2012 and 2011 was \$6,912 and 12,736, respectively.

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NMB entered into a capital lease on September 10, 2010 to lease a Xerox machine over a five-year period. The lease provide for ownership to transfer to NMB at the end of the lease period. The present value of the minimum lease payments of \$25,807.20 annually at an interest rate of 8.25 percent was determined to be \$102,365.28 for the machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2012 and 2011 was \$67,453 and 86,153, respectively.

NMB entered into a capital lease on September 27, 2010 to lease a Xerox machine over a five-year period. The lease provide for ownership to transfer to NMB at the end of the lease period. The present value of the minimum lease payments of \$5,393.52 annually at an interest rate of 8.25 percent was determined to be \$21,393.61 for the machine. The Capital Lease Asset is being depreciated on a straight line basis on 5 years. The Capital Lease Liability as of September 30, 2012 and 2011 was \$14,164 and 18,067, respectively.

NOTE 11: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations Incurred reported on the Statement of Budgetary Resources in 2012 and 2011 consists of the following:

DIRECT OBLIGATIONS	FY 2012	FY 2011
Category A	\$ 12,584,790	\$ 12,769,920
Category B	85,736	57,524
TOTAL OBLIGATIONS INCURRED	\$ 12,670,526	\$ 12,827,444

NOTE 12: STATEMENT OF BUDGETARY RESOURCES VS. BUDGET OF THE UNITED STATES GOVERNMENT

The reconciliation as of September 30, 2011 is presented below. The reconciliation as of September 30, 2011 is not presented, because the submission of the Budget of the United States (Budget) for FY 2014, which presents the execution of the FY 2012 budget, occurs after publication of these financial statements. The National Mediation Board Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2013. For the Fiscal Year Ended September 30, 2011 (in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources Expired Funds	\$ 15 (2)	\$ 13	\$ 0	\$ 13
BUDGET OF THE UNITED STATES	\$ 13	\$ 13	\$ 0	\$ 13

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MANAGEMENT ASSURANCES (FMFIA)

ASSURANCE STATEMENT (FMFIA)

This section provides information on NMB's compliance with the Federal Managers' Financial Integrity Act (FMFIA) and the Improper Payments Information Act, as well as other management information, initiatives, and issues. FMFIA requires that agencies establish controls that provide reasonable assurance that:

- 01 obligations and costs comply with applicable law;
- 02 assets are safeguarded from waste, loss, unauthorized use, or misappropriation, and;
- 03 revenue and expenditures are properly recorded and accounted for.

It also requires the Chairman to provide an assurance statement on the adequacy of management controls.

The NMB's management is responsible for establishing and maintaining effective internal controls that meet the obligations of FMFIA within their areas of responsibility. Based on the directors' knowledge of daily operations and other management reviews, the NMB is able to provide an unqualified statement of assurance that the internal controls meet the objectives of FMFIA.



HARRY R. HOGLANDER
Chairman
October 26, 2012

IMPROPER PAYMENTS INFORMATION ACT

The NMB is considered to be at low risk for improper payments since the functional payment areas are limited to traveler reimbursement, commercial vendors for supplies and services, and the payroll EFT payments. The NMB does not administer any entitlement, grant, or loan programs.

FEDERAL TRAVEL CARD PROGRAM

The NMB is a full participant in the Federal Travel Card Program, and has issued travel credit cards to employees whose official duties may require frequent travel. The Office of Administration routinely monitors each employee's use of the travel card to ensure that charge activities are restricted to official government travel-related expenses, and that the employee is paying his/her credit card bills on-time.

During FY 2012, employees were reimbursed for authorized travel-related expenses an average of one business day after receipt of their completed travel voucher.

During this same period, no NMB employee's travel card account was identified as being delinquent and no inappropriate usage of the travel card was identified.

FEDERAL PURCHASE CARD PROGRAM

During this period, the NMB continued its use of the U.S. Government's purchase card program to expedite the purchase of authorized supplies and services. The NMB has an internal process that requires an approved purchase request form for all requests. This purchase request is reviewed and approved by the office director before being submitted to the Office of Administration for action. The OA staff determines the appropriate contracting vehicle to procure the requested goods and/or services. The Office of Administration has an internal operating procedure which supplements the coverage in the Federal Acquisition Regulation (FAR) Subpart 1.6, Contracting Authority and Responsibilities.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

The Federal Information Security Management Act (FISMA) requires an annual, independent evaluation of each agency's information technology (IT) security program. The NMB continues to work with the Bureau of the Public Debt to perform reviews of the NMB's technology security program. The results of the reviews form the basis of the NMB's annual FISMA report to OMB, and associated Plans of Action & Milestones (POA&M). The NMB provides its employees and contractors with annual Information Systems Security Awareness training as required by this Act.

FMFIA MATERIAL WEAKNESS IN MANAGEMENT OPERATIONS

In the NMB's 2011 financial audit, the auditors once again identified the same material weakness from the previous fiscal year. The weakness related to the untimely recording of obligations related to arbitration services. These services are payments made to the arbitrators, contractors, who hear and decide minor disputes in the railroad industry. The NMB had previously put administrative procedures in place that it believed would resolve the 2010 findings. The NMB moved to a new system which became fully operational in August, 2012, ensuring that the accounting system and the arbitrator workspace are reconciled monthly and funds are available for the cases assigned to arbitrations. These procedures have placed the NMB on the right path of fiscal accountability over Section III funding.

The NMB will continue to estimate a contingent liability in the notes to the financial statements for cases that are not assigned to arbitrators based upon a \$630 per case cost assumption. The estimated cost was calculated based upon average case costs over the past five fiscal years. While this amount will be in the notes, it will not be on the face of the financial statements.

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REPORT PURSUANT TO
SECTION 2 OF THE
INTEGRITY ACT: INTERNAL
CONTROL SYSTEM

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Overall Compliance **YES**

NUMBER OF MATERIAL WEAKNESSES

PERIOD REPORTED	REPORTED	CORRECTED	PENDING
Prior Years	0	N/A	0
2006 report	0	N/A	0
2007 report	0	N/A	0
2008 report	0	N/A	0
2009 report	0	N/A	0
2010 report	0	N/A	0
2011 report	0	N/A	0
2012 report	0	N/A	0
TOTAL	0	0	0

PENDING MATERIAL WEAKNESSES (BY FUNCTION)

CATEGORY	NUMBER	YEAR FIRST REPORTED
Program management	0	N/A
Functional management:	0	N/A
Procurement	0	N/A
Grant management	0	N/A
Personnel & organizational management	0	N/A
ADP security	0	N/A
Payment systems and cash management	0	N/A
Loan management and debt collection	0	N/A
Property and inventory management	0	N/A
TOTAL	0	N/A

Overall Compliance **YES**

MANAGEMENT SYSTEMS

EXISTING SYSTEMS	TOTAL	IN CONFORMANCE
Prior years	1	1
2006 report	1	1
2007 report	1	1
2008 report	1	1
2009 report	1	1
2010 report	1	1
2011 report	1	1
2012 report	1	1
TOTAL	1	1

PENDING NONCONFORMANCE

MATERIAL NONCONFORMANCE	REPORTED	CORRECTED	PENDING
Prior Years	0	N/A	0
2006 report	0	N/A	0
2007 report	0	N/A	0
2008 report	0	N/A	0
2009 report	0	N/A	0
2010 report	0	N/A	0
2011 report	0	N/A	0
2012 report	0	N/A	0
TOTAL	0	N/A	0

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REPORT PURSUANT
TO SECTION 4 OF THE
INTEGRITY ACT: FINANCIAL
MANAGEMENT SYSTEMS

FINANCIAL REPORTS & MANAGEMENT ASSURANCES

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Overall Compliance **YES, ACHIEVED 1988**

NUMBER OF MATERIAL WEAKNESSES

PERIOD REPORTED	REPORTED	CORRECTED	PENDING
Prior Years	0	N/A	0
2006 report	0	N/A	0
2007 report	0	N/A	0
2008 report	0	N/A	0
2009 report	0	N/A	0
2010 report	0	N/A	0
2011 report	0	N/A	0
2012 report	0	N/A	0
TOTAL	0	0	0

PENDING NONCONFORMANCE

PERIOD REPORT: FY 12	NUMBER	YEAR FIRST REPORTED
General ledger control	0	N/A
Interfaces	0	N/A
Data accuracy, timeliness, comparability, usefulness	0	N/A
Property	0	N/A
Cash management	0	N/A
Receivables	0	N/A
Program costs	0	N/A
Payroll	0	N/A
Systems documentation	0	N/A
Audit trails, security	0	N/A
Other	0	N/A
TOTAL	0	N/A